

Message Text

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ACTION EUR-12

INFO OCT-01 EA-06 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 FRB-03

INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04 SIL-01

OES-03 L-03 H-02 SAJ-01 /095 W
----- 084597

R 061958Z JUN 75

FM AMEMBASSY MOSCOW

TO SECSTATE WASHDC 969

USDOC WASHDC

INFO AMEMBASSY BELGRADE

AMEMBASSY BERLIN

AMEMBASSY BUCHAREST

AMEMBASSY BUDAPEST

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

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USMISSION OECD PARIS UNN

AMEMBASSY PARIS

AMEMBASSY PRAGUE

AMEMBASSY ROME

AMEMBASSY WARSAW

AMEMBASSY SOFIA

AMEMBASSY TOKYO

USEC BRUSSELS UNN

C O N F I D E N T I A L MOSCOW 7884

USDOC FOR BEWT

E.O. 11652: GDS

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TAGS: ETRD, EFIN, ENRG, UR, US

SUBJECT: US-SOVIET TRADE: SOVIET BUREAUCRACY AT ODDS OVER POLICY

REF: MOSCOW 7387

1. SUMMARY: DURING DISCUSSION WITH EMBOFF FOLLOWING JUNE 5 FILM SHOWING AT MFA GUEST HOUSE TWO MEMBERS OF USA DIVISION WHO WORK ON ECONOMIC MATTERS STATED THAT THERE IS CONSIDERABLE LACK OF AGREEMENT WITHIN SOVIET BUREAUCRACY ON POLICY WITH REGARD VARIOUS ASPECTS OF US-SOVIET ECONOMIC RELATIONS. AS DESCRIBED BY TWO SOVIETS, MFA, MINISTRY FOREIGN TRADE AND SEVERAL INDUSTRIAL MINISTRIES ALL FAVOR CONTINUED SOVIET EFFORTS ACQUIRE US EQUIPMENT AND TECHNOLOGY, EVEN WITHOUT EXIM CREDITS AND MFN. STATE PLANNING COMMITTEE (GOSPLAN) AND SOVIET BANK OFFICIALS, HOWEVER, GENERALLY OPT FOR SLOWDOWN ON SOVIET SIDE, SINCE PLANNERS FEEL SOVIET ECONOMY CAN CONTINUE SATISFACTORY GROWTH WITHOUT WESTERN TECHNOLOGY (SEE REFTEL) AND BANKERS RELUCTANT TO TAKE ON LARGE PRIVATE CREDITS UNDER MARKET CONDITIONS. SOVIETS ALSO EXPRESSED CONCERN ABOUT CONTINUING INFLATION PROBLEM IN WEST, ADMITTING THAT SOVIET ECONOMY WOULD ULTIMATELY BE NEGATIVELY EFFECTED. END SUMMARY

2. TWO SOVIET "ECONOMIC" OFFICERS (KUZNETSOV AND KUSCHEV) OPENED DISCUSSION BY ASKING IF EMBOFF HAD READ RECENT LITERATURNAYA GAZETA ARTICLE BY GOSPLAN DEPUTY CHAIRMAN INOZMETSEV (REFTEL). EMBOFF'S POSITIVE REPLY DREW EXPLANATION THAT ARTICLE REPRESENTED ONLY "PLANNERS' VIEWPOINT" AND NOT FIRM SOVIET POLICY. ACCORDING KUZNETSOV, MINISTRY FOREIGN TRADE AND MFA, SUPPORTED BY SEVERAL INDUSTRIAL MINISTRIES (MINISTRY OF AUTOMOBILE INDUSTRY AND MINISTRY OF MACHINE TOOL AND TOOL BUILDING INDUSTRY CITED AS EXAMPLES) FAVOR POLICY OF CONTINUED EXPANSION US SOVIET TRADE EVEN IN ABSENCE MFN AND EXIM CREDITS. WITH REGARD SOVIET NEED FOR WESTERN TECHNOLOGY KUZNETSOV CITED ANALOGY WHICH HE CREDITED TO MINISTRY OF AUTOMOBILE INDUSTRY OFFICIAL: PERSON FACED WITH 10-MILE TRIP COULD WALK, AND IN THAT SENSE WOULD NOT NEED AUTOMOBILE; HOWEVER, TRIP BY CAR WOULD BE FASTER, MORE PLEASANT AND MORE ECONOMICAL. AT THIS POINT KUSCHEV REMARKED THAT MANY GOSPLAN OFFICIALS PROBABLY HAVE ANTI-AUTOMOBILE BIAS IN VIEW THEIR AGES. SIMILAR CRITICISM OF CONSERVATIVE SENIOR GOSPLAN OFFICIALS HAS BEEN HEARD IN PAST, EVEN FROM YOUNGER GOSPLAN EMPLOYEES. CONFIDENTIAL

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3. ON QUESTION MFN AND EXIM CREDITS SOVIETS EXPRESSED USUAL LINE THAT THESE PART OF "NORMAL" INTERNATIONAL TRADE AND US ADMINISTRATION SHOULD MAKE EFFORT IN NEAR FUTURE TO EXTEND BOTH UNDER CONDITIONS ACCEPTABLE TO USSR. HOWEVER BOTH AGREED THAT PRIVATE US BANK CREDITITS MIGHT PARTIALLY FILL TRADE NEEDS PENDING NEW LEGISLATION. KUZNETSOV NOTED REMARKS BY DAVID ROCKEFELLER DURING MOSCOW VISIT THIS WEEK

WITH REGARD CHASE MANHATTAN FORMATION OF US BANK CONSORTIUM TO PROVIDE CREDITS AND CLAIMED MFA AND MFT WOULD SUPPORT SUCH PRIVATE US EFFORTS. BOTH SOVIETS TENDED ENDORSE IDEA VOICED TO EMBOFF EARLIER IN DAY BY MOSCOW REPRESENTATIVE BANK OF AMERICA THAT SOVIET BANKING OFFICIALS WERE LESS EAGER TO ACCEPT US PRIVATE CREDIT. KUZNETSOV FELT THAT BANKERS RELUCTANCE DUE LARGELY TO FEELING THAT ACCEPTANCE LARGE PRIVATE CREDITS WOULD REDUCE CREDIBILITY OF SOVIET CLAIM THAT EXIM CREDITS ESSENTIAL FOR FUTHER TRADE DEVELOPMENT. KUZNETSOV SAID HE READ REPORT OF STATEMENT ALLEGEDLY MADE BY BEWT DIRECTOR DOWNEY OR HAROLD SCOTT AT EAST-WEST TRADE MEETING MAY 9-10 IN NEW YOFK TO EFFECT THAT THROUGH "LOOPHOLE" IN EXIM LAW SEVERAL BILLIONS IN CREDIT COULD LEGALLY BE EXTENDED TO USSR.

4. SOVIETS EXPRESSED CONCERN OVER CONTINUED PROBLEM OF INFLATION IN US, ADMITTING THAT SOVIET ECONOMY WOULD ULTIMATELY SUFFER FROM NEGATIVE EFFECTS INTERNATIONAL INFLATION. ACCORDING KUZNETSOV SOVIET PRESS REPORTS THAT DOMESTIC ECONOMY ISOLATED FROM EFFECTS OF INFLATION INTENDED FOR CONSUMERS WHO JUDGE ECONOMY "BY POTATO PRICES". US INFLATION IN THEIR VIEW IS RESULT OF MONETARY POLICY WITH "TOO MANY DOLLARS COMING OFF PRESS". KUZNETSOV CLAIMED THERE HAVE BEEN DISCUSSIONS WITHIN MFA RECENTLY ABOUT SOVIET RELATIONS WITH INTERNATIONAL MONETARY ORGANIZATIONS LIKE IMF AND IBRD, BUT SO FAR NO NEW POLICIES HAVE EVOLVED. FONMIN GROMYKO REPORTEDLY TAKES GREAT INTEREST IN ECONOMICS, WHICH ACCORDING KUZNETSOV NOT SURPRISING SINCE GROMYKO HAS DOCTORATE IN SUBJECT.

5. COMMENT: THIS DISCUSSION ADDS TO EVIDENCE RECEIVED BY EMBASSY RECENTLY FROM BOTH PRESS AND PRIVATE CONTACTS THAT SOVIET BUREAUCRACY NOT YET FIRM ON CORRECT APPROACH TO PRIVATE CREDITS, IMPORT OF WESTERN TECHNOLOGY AND US-SOVIET GENERAL TRADE POLICY PENDING NEW LEGISLATION ON MFN AND EXIM. ALTHOUGH CONFIDENTIAL

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MFA OFFICIALS MADE CLEAR THEY NOT PLEADING SOVIET CASE, THEY FULLY ACKNOWLEDGED VALUE OF EXPANDED TRADE FOR SOVIET ECONOMY AND CLEARLY WISHED IMPRESS EMBOFF WITH FACT THEIR MINISTRY WAS PRO-EXPANSION. EMBASSY WOULD APPRECIATE ANY AVAILABLE INFORMATION WITH REGARD ALLEGED REFERENCE TO EXIM "LOOPHOLE" AT NEW YORK CONFERENCE.
STOESSEL

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MFN, CREDIT, FOREIGN POLICY POSITION, ECONOMIC PROGRAMS, FOREIGN TRADE
Control Number: n/a
Copy: SINGLE
Draft Date: 06 JUN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975MOSCOW07884
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750199-0437
From: MOSCOW
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750674/aaaacpkg.tel
Line Count: 161
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 MOSCOW 7387
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 14 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <14 APR 2003 by ElyME>; APPROVED <26 SEP 2003 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: US-SOVIET TRADE: SOVIET BUREAUCRACY AT ODDS OVER POLICY
TAGS: ETRD, EFIN, ENRG, UR, US
To: STATE COM
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006